

Internal Revenue Service
District Director

Department of the Treasury

[REDACTED]

Date: SEP 15 1992

Person to Contact:

Contact Telephone Number:

Refer Reply to:

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption under section 501(c)(7) of the Internal Revenue Code.

The evidence presented with your application for tax exemption under IRC 501(c)(7) indicates that you were incorporated on [REDACTED] in the State of [REDACTED].

The purpose for which the corporation was formed for are as follows: "The corporation is organized for social and recreational purposes within the meaning of section 501(c)(7) of the Internal Revenue Code."

Information submitted with your Form 1024 application and follow-ups thereto indicate that the organization own, shares and maintains an airplane for use by its members. Membership is open to anyone interested in flying. The members rent the plane for personal use at an hourly rate below market cost, thus giving members "the right to fly or learn to fly at a reasonable cost". Members also rent planes to instruct non-members who pay for lessons directly to the individual member. The organization's source of support consists of membership dues and aircraft rental fees. The organization's primary recurring expenses include expenditures for aircraft maintenance, utilities, depreciation, and premises maintenance.

The only other activities conducted by the organization are monthly meetings in which members could attend and learn basic instructions on flying and aviation, and fundraising events (approximately [REDACTED] per year) to raise funds to defray the members' rental costs.

Section 501(c)(7) of the Code provides exemption to clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

The term "club" as used in IRC 501(c)(7) is implicitly defined as an organization having an existing personal contact, commingling, and fellowship among members. It also presupposes the existence of a common objective among members - a mutuality of active interests or shared goals justifying the organizations existence.

Revenue Ruling 70-52, 1970-1 C.B. 132, denies exemption under IRC 501(c)(7) to an organization providing economical flying facilities for its members, but having no organized social and recreational programs.

Like your organization the organization described in the above ruling has as its primary activity the ownership, operation, and maintenance of the aircraft used by members, thus providing them with economical flying facilities. In addition, membership of this organization, like yours, is open to anyone interested in flying.

Revenue Ruling 74-30, 1974-1 C.B. 137, grants exemption to an organization under section 501(c)(7) of the Code that provides, to a limited membership, flying privileges solely for its members, assesses dues based on the club's fixed operating costs and charges fees based on variable operating expenses, and whose members are interested in flying as a hobby, constantly commingle in informal meetings, maintain and repair the aircraft owned by the club, and fly together in small groups.

Unlike your organization, the members in the above revenue ruling constantly in personal contact with each other by formal board meetings, and by informal meetings to schedule the use of aircraft. Further, many are in contact to assist in training; to wash, inspect, and provide maintenance to the aircraft; to ferry the aircraft to service shops; to admit new members; review and pay bills and other financial affairs; to comply with FAA directives; and to fly together in small groups.

By flying and maintaining aircraft in the manner described in Revenue Ruling 74-30, the club members are jointly participating in the hobby of flying for pleasure and recreation within the meaning of section 501(c)(7) of the Code. The activities of the organization in Revenue Ruling 70-32 and of your organization are primarily to render flying services to its members, thus lacking the requirement that commingling of members play a material part in the activities of the organization. Furthermore, the fact that membership is open to anyone interested in flying indicates that the organizations purposes are not limited to social and recreational.

Accordingly, we conclude that you do not meet the requirements for exempt status under section 501(c)(7) of the Code and propose to deny your request for exemption under that section.

We have also determined that you fail to qualify for exempt status under any other subsection of IRC 501(c).

You are required to file a taxable return Form 1120 or 1041 with the District Director of Internal Revenue Service. Please send the return to the Internal Revenue Service, P.O. Box 1680, General Post Office, Brooklyn, NY 11202.

If you do not agree with this determination, you may request a Conference with the Regional Director of Appeals by protesting in accordance with the enclosed instructions within 30 days.

Protests submitted which do not contain all the documentation stated in the instructions will be returned for completion.

If we do not hear from you within that time, this determination will become final.

Sincerely yours


District Director

Enclosure: Publication 892